

## **Connecticut Staffing Association Urges Repeal of Sales and Use Tax on Services Offered by Employment Agencies and Agencies Providing Personnel Services**

This statement is submitted on behalf of the Connecticut Staffing Association (“CSA”) and the American Staffing Association (“ASA”). CSA and ASA respectively represent Connecticut’s, and the nation’s, staffing firms. CSA and ASA applaud the creation of the State Tax Study Panel and urge them to recommend to the state legislature the repeal of the state’s sales and use tax, especially the section that applies to “services by employment agencies and agencies providing personnel services.”<sup>1</sup>

### **The Staffing Industry—Brief Overview**

In the United States, there are approximately 17,000 staffing and recruiting firms, which collectively operate approximately 35,000 offices. Staffing firms offer a wide range of employment-related services, predominantly: temporary and contract staffing; recruiting and permanent placement; outsourcing and outplacement; and human resource consulting.

More than three million temporary and contract employees work for America’s staffing firms during an average week. Throughout the course of 2014, staffing firms hired more than 14 million temporary and contract employees, over 115,000 in the state of Connecticut alone. While staffing industry growth outpaces overall economic and employment growth, the industry employs only about 2% of the U.S. nonfarm workforce.

Staffing employees work in virtually all occupations, from day labor to chief executive. Just over one-third (35%) work in occupations that require higher education and skills, typically in the professional–managerial; engineering, information technology, and scientific; and health care sectors. About two-thirds (65%) work assignments in the industrial and office–clerical and administrative sectors.

- 37% Industrial
- 28% Office–Clerical and Administrative
- 13% Professional–Managerial
- 13% Engineering, Information Technology, and Scientific
- 9% Health Care

Most staffing employees (76%) work full time, which is comparable to the rate in the overall workforce (82%). In 2014, temporary and contract workers reported being paid more than \$17 per hour on average. Temporary and contract workers were employed by staffing firms for an average of 11.3 weeks in 2014, with a turnover rate of 359%. The rate of staffing employee turnover is based on the average number of workers per week and the number of Form W-2s issued for the year.

### **A Sales Tax on Staffing Services Is a Tax on Jobs and Wages**

A sales tax on staffing services is a tax on jobs and wages. Industry studies show that raising the cost of staffing services reduces the demand for those services, which can cost temporary employees

their jobs and reduce employee wages. Those who are hurt most by a sales tax are minorities, women, retirees, laid-off employees seeking new opportunities, and individuals transferring from welfare to work.

*A Sales Tax on Staffing Services Hurts Small Businesses in the State and Encourages Inefficient Use of Resources by Large Businesses*

Taxes on business services such as staffing place small, locally-owned businesses at a competitive disadvantage. Small businesses often rely on outside firms to provide them with accounting, bookkeeping, secretarial, legal, advertising, and other services, many of which are provided by staffing firms. Taxing those services raises the cost of doing business for small firms, since, unlike larger firms, they generally do not have the ability to avoid the tax by using in-house staff. Larger firms are encouraged to hire in-house staff to perform many services as a means of tax avoidance, even when it would be more efficient to outsource those functions.

*A Sales Tax on Staffing Services Results in "Tax Pyramiding"*

When customers of staffing firms absorb sales taxes, the result is an unfair pyramiding of taxes where the final product or service is also likely subject to sales taxation. Such "pyramiding" is harmful to consumers, who effectively are taxed at least twice on the same product.

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<sup>1</sup> Conn. Gen. Stat. § 12-407(37)(C).